



UMDONI MUNICIPALITY

TOGETHER BUILDING UNITY - SIYAKHISANA - TESAME BOU ONS EENHEID

MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK BUDGET

2011/2012 FINANCIAL YEAR

13th APRIL 2011

TABLED FOR ADOPTION





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1. MAYORS REPORT

HONOURABLE MADAM MAYOR, CLLR NH GUMEDE

Our strategic priorities form the basis on which this budget is prepared and therefore is a clear indication of our commitment to respond to the needs of our people, at all levels within our communities. This budget was further prepared on a basis of introspection by ourselves, looking at the past achievements as well as recognising our shortcomings and identifying ways in which we can do things differently and better.

This budget has not been prepared in isolation, but rather as a holistic approach in realising our vision of service delivery excellence by 2012.

In preparing this budget and in order to focus our attention to service delivery priorities, our Municipality took into consideration a lot of factors:

- * Limited income sources
- * Cost cutting measures
- * Decrease of the salary budget –

“ensuring value for money also means implementing proper remuneration practices. Paying workers a decent wage is important but this must happen in a way that does not hinder service delivery”.

- * Focused attention to rural development
- * Maintenance of existing infrastructure

OVERVIEW OF THE ANNUAL BUDGET PROCESS

The budget process is guided by various legislative frameworks and regulations, including the Local Government Municipal Finance Management, No, 56 of 2003 and the Municipal Systems Act, 2000.

Adherence to these guidelines and regulations are imperative during the budget preparation to ensure an effective, credible and sustainable budget. The review of past practices and performance is further necessary, to identify areas of weakness which can be addressed, as well as maintain the level of performance in areas where this has been achieved.

OVERVIEW OF THE ALIGNMENT OF THE BUDGET TO THE INTEGRATED DEVELOPMENT PLAN

The alignment of the budget to the integrated development plan is crucial in order to ensure the effectiveness of any budget. Various internal consultative sessions were held with all Councillors and officials in order to determine the strategic priorities for the municipality in the upcoming financial year. Both the integrated development plan and the budget have incorporated these priorities and action plans, and therefore assisted in the alignment of both the budget and the integrated development plan.



2011/2012 BUDGET HIGHLIGHTS

TOTAL CAPITAL BUDGET: R 27,254,510

TOTAL OPERATING BUDGET: R 122,598,063

SIGNIFICANT CAPITAL PROJECTS

- | | |
|--|----------------|
| • Umzinto sports field – phase 2 | - R 2,418,000 |
| • Gqolweni road | - R 5,977,110 |
| • Humbardale cemetery – phase 3 | - R 3,720,000 |
| • Umzinto offices | - R 1,000,000 |
| • Office block – social welfare (investment) | - R 10,000,000 |
| • Street lights – rural | - R 1,000,000 |

OPERATING BUDGET

Umdoni Municipality implemented the Municipal Property Rates Act for the first time for the 08/09 financial year. This resulted in a revaluation of all properties within the Umdoni area, and was aligned to market related values. With this valuation, came the implementation of a new rates policy, and applicable tariffs, rebates and relief to the poor. Being the third year of implementation, we have come a long way in ensuring the accuracy and completeness of our Valuation Roll. The Valuation Appeals Board has been established and is currently finalizing all objections and appeals. This process will be completed within the current financial year. In addition, the process for preparation of a new valuation roll will commence in the current financial year.

The current economic situation has further increased the financial burden on households throughout the country and has contributed to the struggle of day to day living and job security and sustainability. As a sphere of government, we are sensitive to the crisis that we face, and therefore we have accounted for a 6% increase in the rates randages for the upcoming financial year. This 6% increase will assist in addressing the inflationary pressures experienced as well as assist in the municipality being able to contribute more effectively to the enhancement of service delivery.

A substantial amount of work has further been achieved in terms of the establishment of **ward committees**, during the past year, at a budgetary provision of R 115 000 and will continue in the following financial year, improving the public participation process with our communities.

Grants and subsidies in respect of alternate energy has increased from 5 liters to 7 liters allocation to the disadvantaged communities have been allocated at R 3,3 million for the current financial year. These grants include the grant in aid for various non-profit organisations, the provision of energy based gel to 5000 users,



UMDONI MUNICIPALITY

DRAFT BUDGET DOCUMENTATION FOR THE 2011/2012 BUDGET YEAR

Special projects targeting the upliftment of youth and women, disability programmes and addressing the effects of HIV/AIDS have been driven during the current financial year at a budgetary provision as follows

Youth,	- R 190 000
Women,	- R80 000
Disabled Groups,	- R40 000
HIV/Aids Programmes,	- R100 000
Sport and Recreation	- R 220 000
Elderly Citizens	- R25 000
Children	- R80 000

Administrative expenses have been substantially decreased over the last few years in order to free up more funds towards actual service delivery.

One of our greatest challenges experienced was with employee costs. On an annual basis Umdoni Municipality limits its increase in income in line with inflation, whilst employee costs increase by between 8 % and 12 % per annum. Umdoni Municipality's main source of income is rates and in the near future this income will not be sufficient to sustain the salaries of the municipality. It has therefore become necessary for us to really work on decreasing our employee cost and to this end we will be concentrating our efforts in this direction. Over the next few years a plan will be put in place to assist this effort.

2. DRAFT RESOLUTIONS

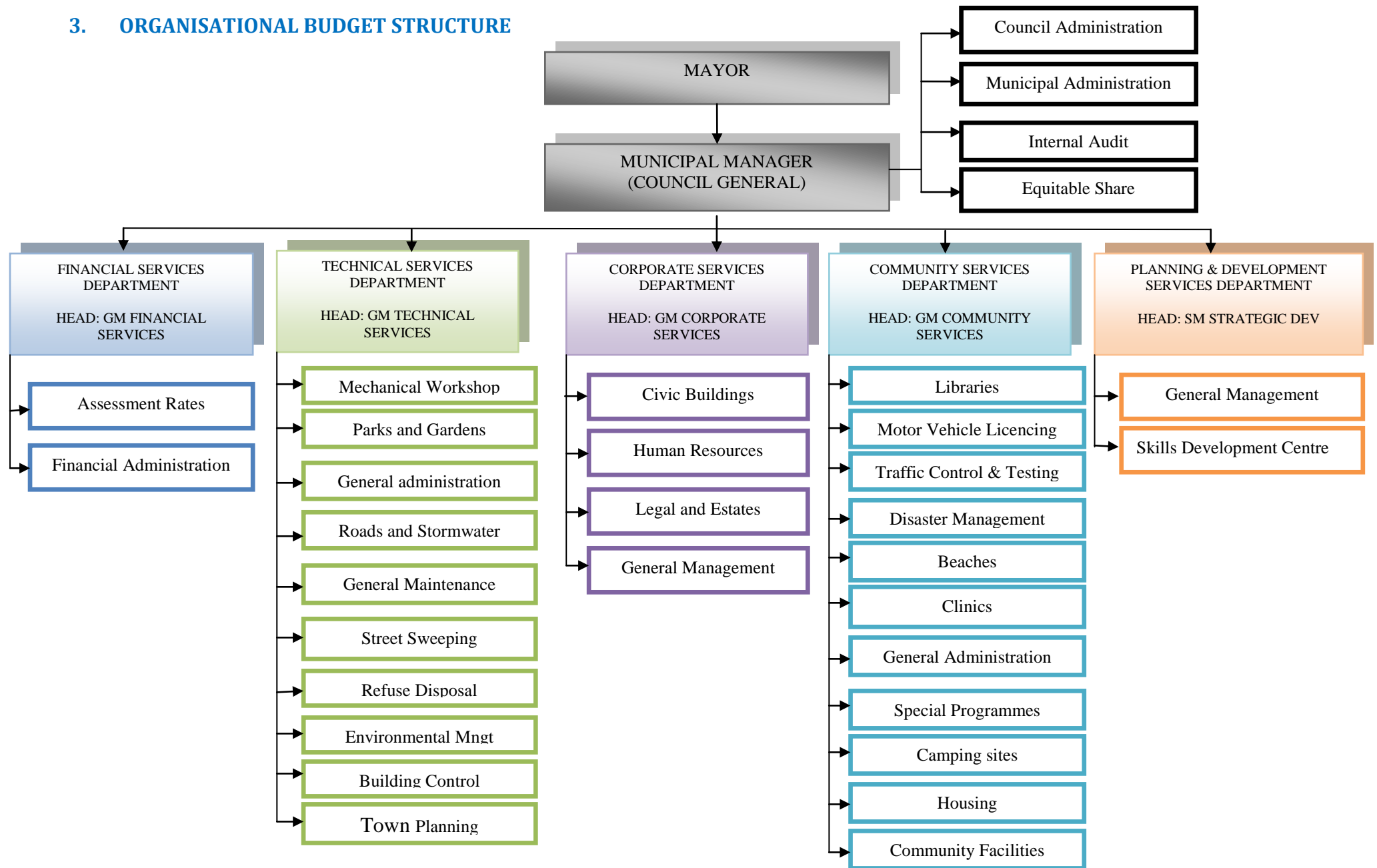
As required in terms of Section 16(2) of the Municipal Finance Management Act, No.56 of 2003, the mayor of the municipality must table a draft annual budget at a council meeting at least 90 days before the commencement of that budget year.

The Draft Budget for the 2011/2012 financial year is hereby tabled to Council for approval therefore initiating the commencement of the public participation process.

The following resolutions are tabled for consideration by Council with regard to the 2011/2012 Budget:

- a. Council resolves that the draft annual capital and operating budgets of the municipality for the financial year 2011/2012 be adopted for public participation process as set out in the following schedules:
 - a) Budgeted Financial Performance Summary by Revenue Source and Expenditure Category for all Departments as reflected in Annexure 1;
 - b) Budgeted Financial Performance - revenue and expenditure by department as reflected in Annexure 3;
 - c) Budgeted Financial Performance - revenue and expenditure by municipal vote as reflected in Annexure 4;
 - d) Budgeted Financial Performance - revenue and expenditure by line item as reflected in Annexure 5;
 - e) Budgeted Capital Expenditure by vote and funding as reflected in Annexure 6; and
 - f) Budgeted Capital Expenditure by line item as reflected in Annexure 7
- b. Council resolves that Draft Tariff of Charges reflected in Annexure 9 are adopted for public participation for the 2011/2012 financial year.
- c. Council resolves that draft property rates randages and rebates reflected in Section 7, Page 12 of the budget documents are adopted for public participation for the 2011/2012 financial year.

3. ORGANISATIONAL BUDGET STRUCTURE



4. EXECUTIVE SUMMARY OF THE 2011/2012 BUDGET

4.1 VISION, MISSION AND OBJECTIVES OF THE UMDONI MUNICIPALITY

VISION

"By 2011 Umdoni Municipality will be synonymous with service delivery excellence, good corporate governance, financial viability and a vibrant local economy delivering services to all its communities in an efficient, effective and economical manner."

MISSION STATEMENT

"Striving to utilise all our resources in a fair and just manner to create a safe, healthy, economically vibrant and participative community enjoying quality services."

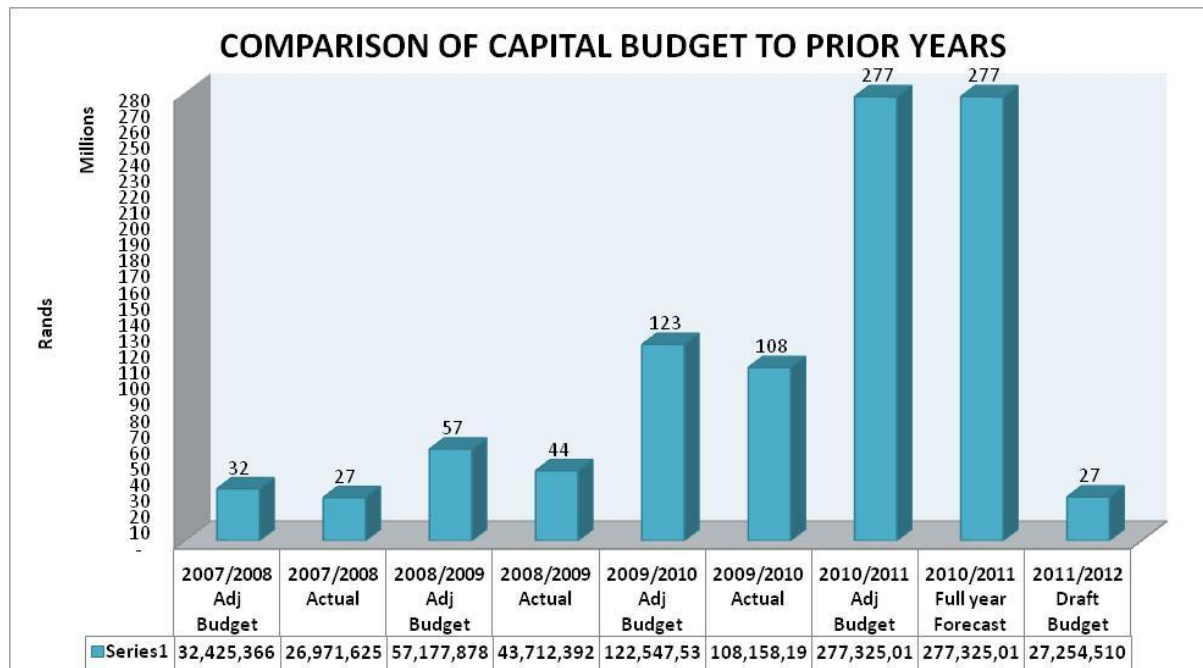
OBJECTIVES OF UMDONI MUNICIPALITY

- to provide democratic and accountable government for local communities;
- to ensure the provision of services to communities in a sustainable manner;
- to promote social and economic development;
- to promote a safe and healthy environment; and
- to encourage the involvement of communities and community organisations in the matters of local government.
- A municipality must strive, within its financial and administrative capacity, to achieve the objects set out above

(S152 – Constitution)

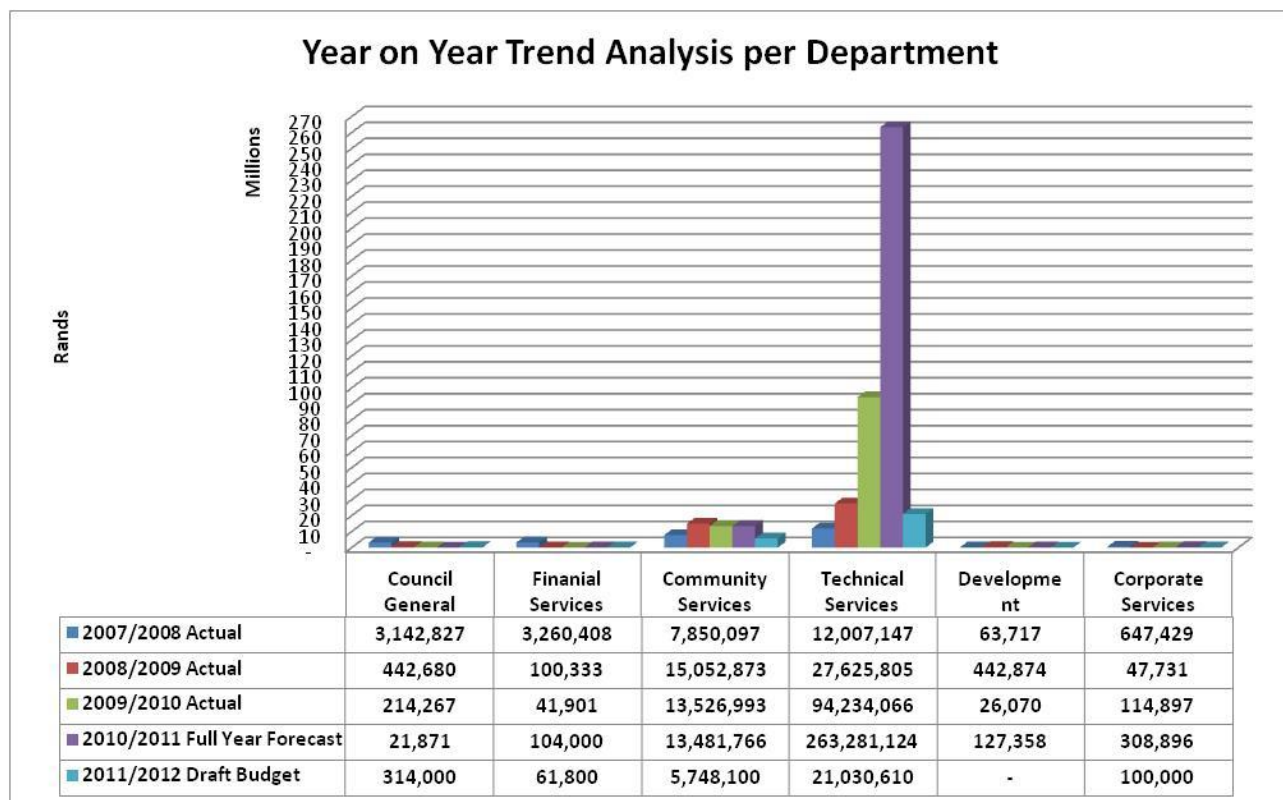
4.2 2011/2012 CAPITAL BUDGET OVERVIEW

The 2011/2012 Capital Budget has been estimated at R 27,254,510. A graphical representation of the capital growth of the municipality can be portrayed as follows:

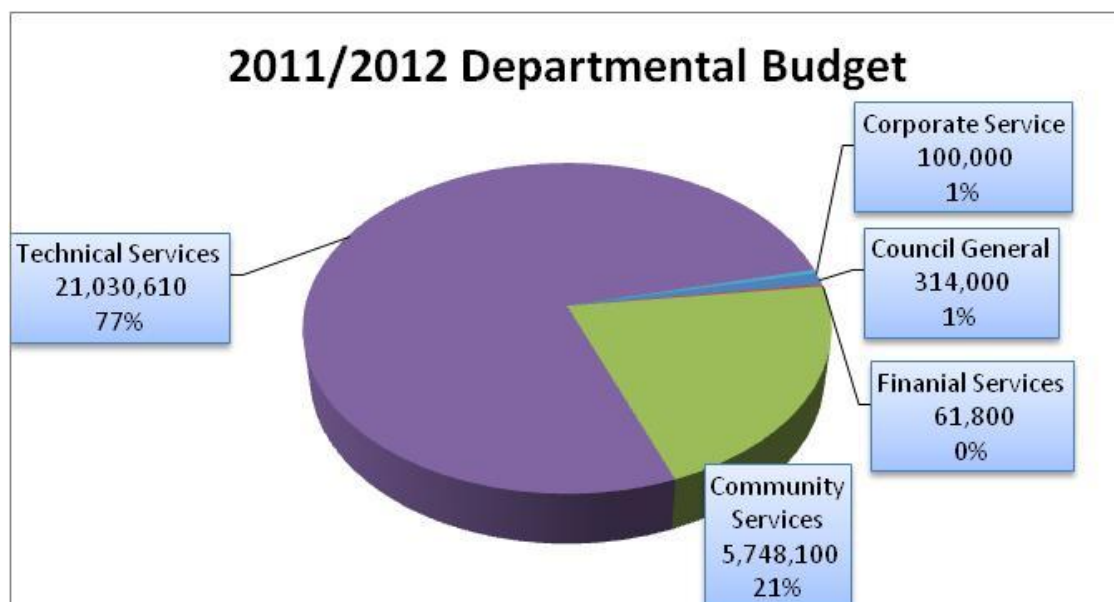


As evident from the above graph, it is clear that the capital budget has decreased from R 277 million in the adjustment budget to just over R 27 million for the upcoming financial year. This is due to completion of The Disaster Rehabilitation Project (R 378 million). In addition, Umdoni Municipality is limiting Capital Projects for the upcoming financial year as more emphasis will be placed on maintaining current infrastructure.

A trend analysis of the capital budget allocations per department from 2007/2008 to the upcoming financial year follows:

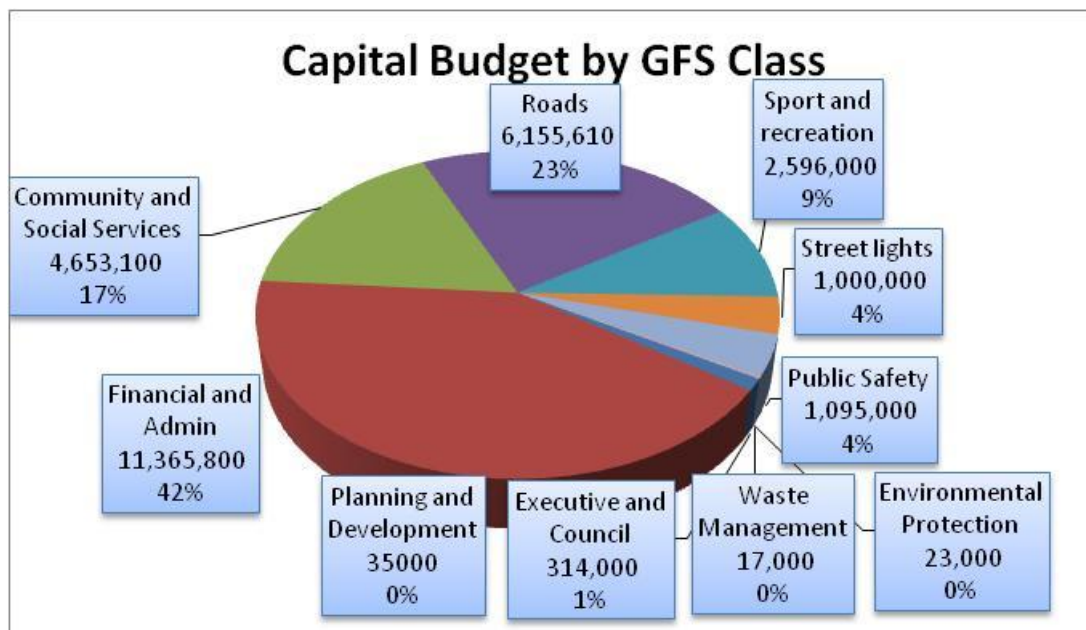


As evident from the graph presented above, it is clear that year on year the majority of Umdoni's Capital Budget is split between Community Services and Technical Services. This shows Umdoni's commitment to providing infrastructure for the community rather than spending administratively.

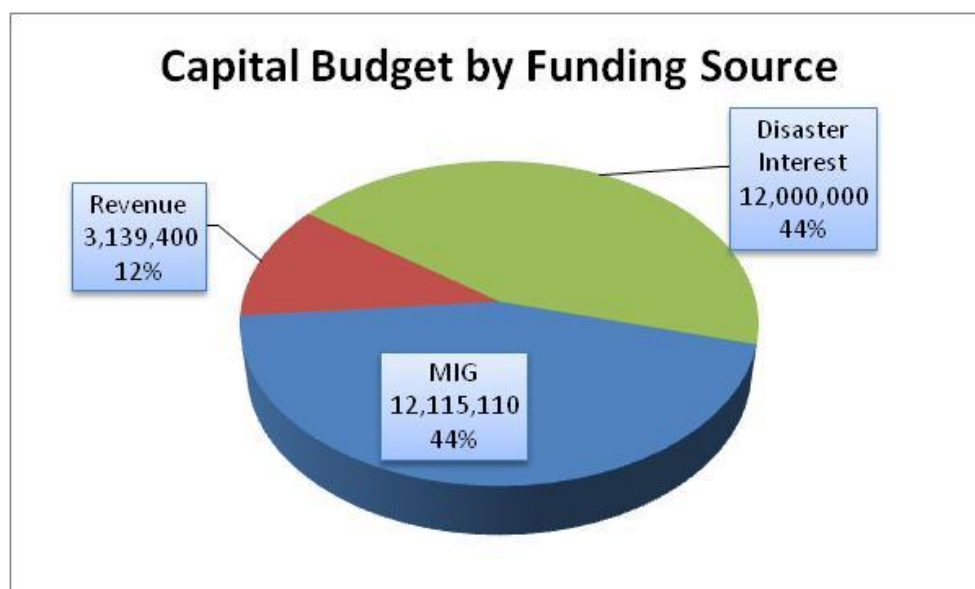


The capital budget for the 2011/2012 financial year is focused toward improving the lives of the communities, and therefore 98% of the capital budget has been targeted toward Technical Services and Community Services. There are three major projects on the budget for the upcoming year funded from MIG. They are Umzinto Sprottsfield, Gqolwein Road and

Humberdale Cemetry totalling R 13 million. In addition, R 1 million has been set aside for Rural Street Lights. The greater part of other capital items are all geared towards service delivery.



The above mentioned graph categorises the capital budget by GFS classification, with roads and stormwater receiving the largest allocation of 23%, Community and Social Services receiving 17%, Sport and Recreation receiving 9% and Street Lights at 4%. This again highlights Umdoni Municipality's commitment to the community . Finance and Administration is allocated 42% of the capital budget mainly due to a New Office Block that will be constructed for investment purposes and to earn much needed revenue for the municipality.



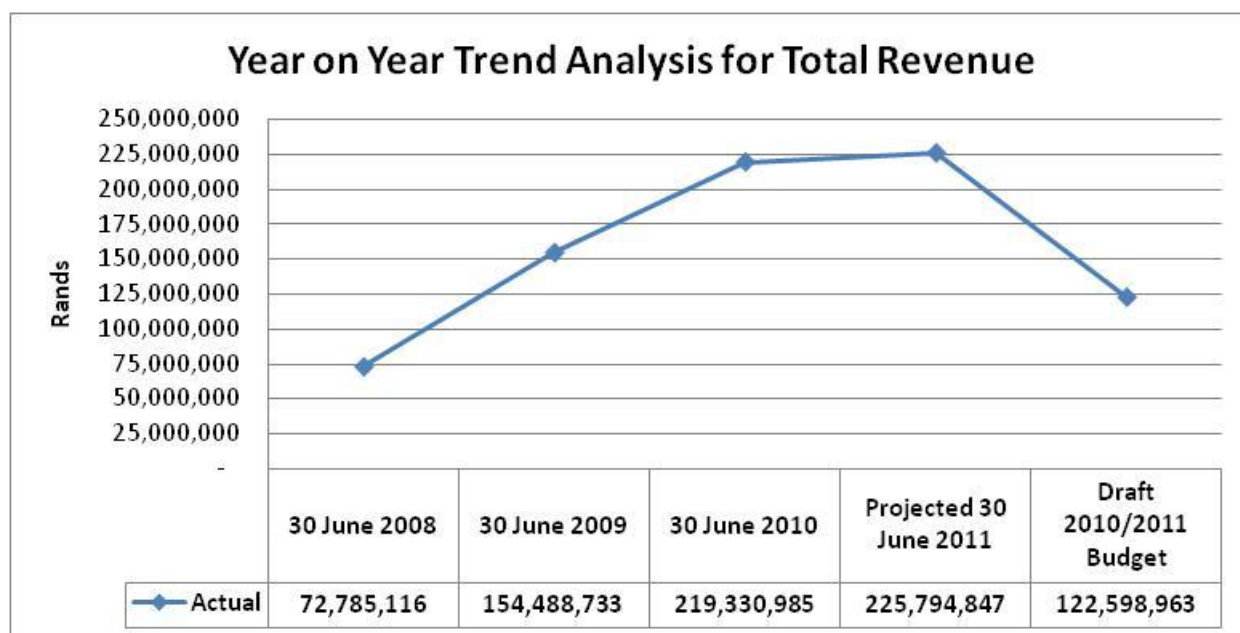
The 11/12 capital budget accounts for three funding sources, being revenue generated income, MIG and surplus interest. Due to the limited resources revenue funded assets have

been capped at just above R 2,9 million rand, of which R 2,5 million rand is geared towards providing services.

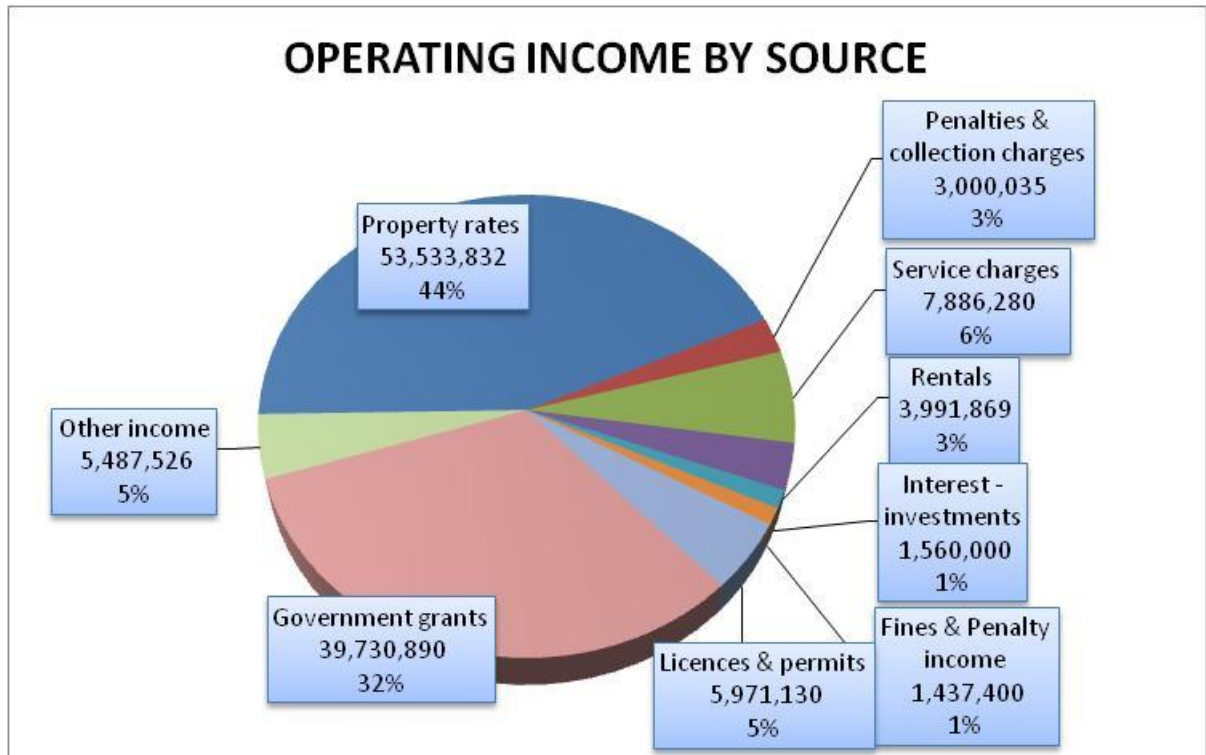
4.3 2011/2012 OPERATIONAL BUDGET OVERVIEW

OPERATING REVENUE

The estimated operating income has been projected at R 122,6 million. An analysis of prior year trend levels of income is reflected below:



Income levels have been estimated at actual collection levels and the 11/12 budget indicates income levels which are realistic and attainable by the municipality. The impact of the global economic crisis as well as current inflation rates have been considered extensively during the establishment of these income levels, as a substantial amount of consumers will no longer be able to afford the level of increases experienced in the past.

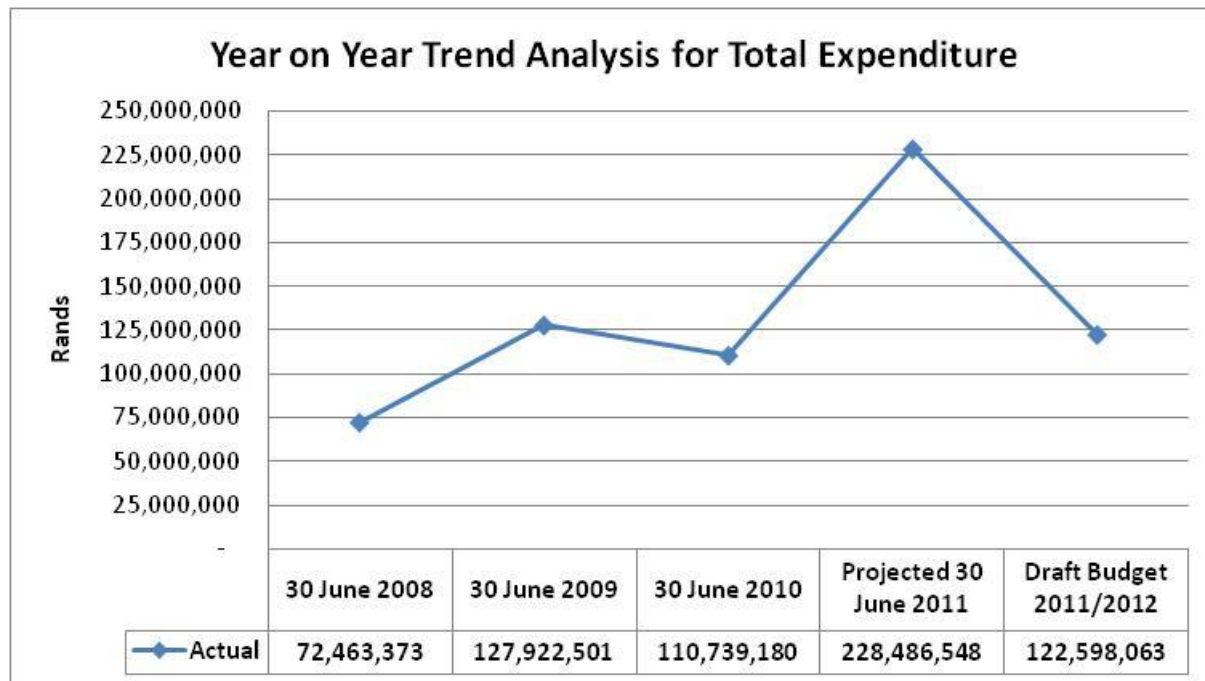


As indicated above, 44% of the income anticipated to be received by the municipality relates to property rates, followed by Government Grants which represent 32% of the estimated income. Included in the grants and subsidies are the equitable share allocation which has been gazetted at R 23,4 million, followed by R 1,2 million allocated for the Finance Management Grant and the remainder as non cash recognition of MIG in accordance with the GRAP standards.

Total Revenue has decreased from the previous financial year due to various sources of income no longer available to the Municipality. Of the significant decreases are interest on investments due to the Disaster Grant being fully expended and various other operational income from the Disaster Grant (approved by Treasury). Also the fact that increases were limited to a maximum increase of 6 %, revenue has not been substantially increased.

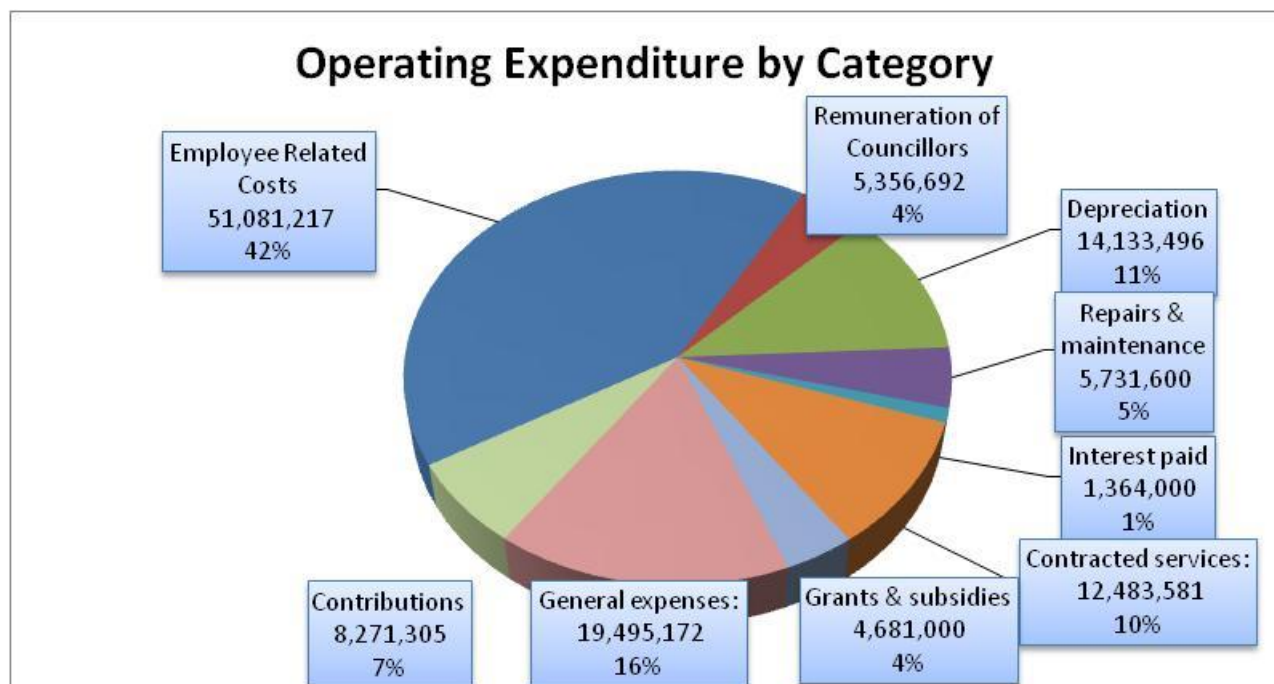
OPERATING EXPENDITURE

The total operating expenditure has been estimated at R 122,6 million. The graph below reflects the trend of expenditure levels as follows:



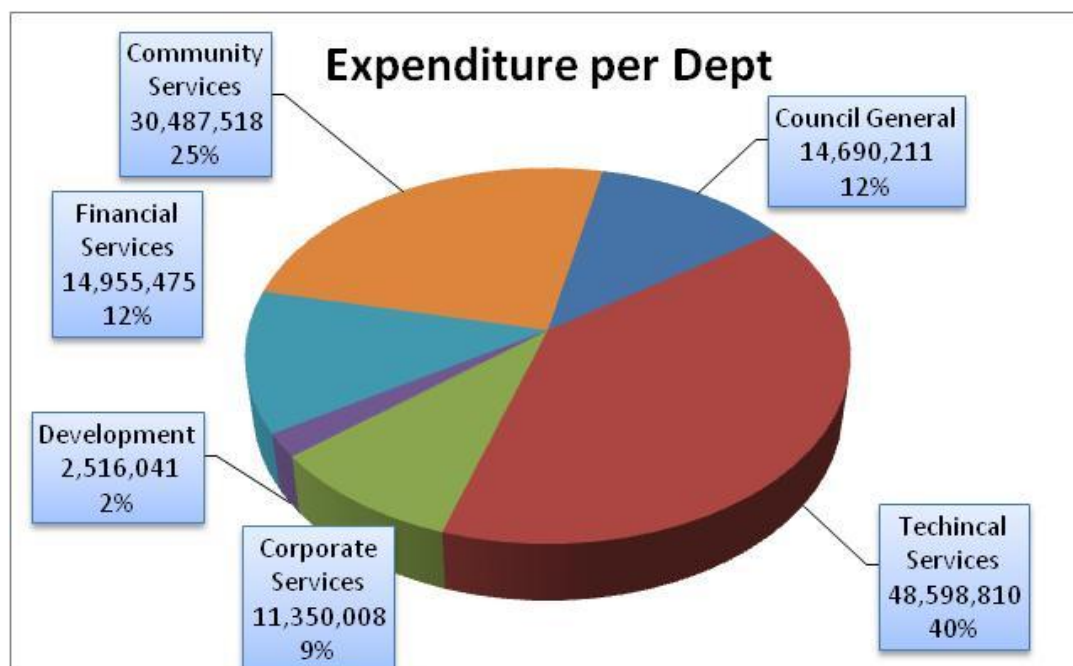
Whilst our income base has been limited due to the current economic times, the day to day operational expenditure is increasing, which is attributable to inflationary increases and increased service delivery expectations. We therefore find ourselves in a situation where we have to spend the reduced income that we have on expenditure that matters, and will improve the lives of the communities that we serve. Therefore, this budget was prepared on the basis that administrative expenditure will be reduced, and that targeted expenditure, based on our strategic priorities, is enhanced.

Expenditure on the 2011/2012 budget has been allocated as follows:



The graph above shows that 42% of budgeted expenditure will be spent on Employee Related Costs. Salaries have been posing a huge problem for our Municipality in recent years. While income is being limited to an increase of 6%, employee costs have been increasing on average 10% per year. The municipality is embarking on a drive in order to curtail Employee costs in an effective manner ie without compromising Service Delivery and avoiding costly retrenchments. In addition to employee costs, other expenditure continues to increase at a rapid rate and we find that in order to provide the same level of service to the community, administrative costs have been drastically reduced.

Expenditure allocated to the respective departments is reflected graphically below:





5. 2011/2012 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK TABLES

Umdoni Municipality has tabled the 2011/2012 annual budget in the format that is in accordance with the budget regulations, where possible, as follows:

- a) Budgeted Financial Performance Summary by Revenue Source and Expenditure Category for all Departments as reflected in Annexure 1;
- b) Budgeted Financial Performance - revenue and expenditure by department as reflected in Annexure 2;
- c) Budgeted Financial Performance - revenue and expenditure by municipal vote as reflected in Annexure 3;
- d) Budgeted Financial Performance - revenue and expenditure by line item as reflected in Annexure 4;
- e) Budgeted Capital Expenditure by vote, GFS classification and funding as reflected in Annexure 5; and
- f) Budgeted Capital Expenditure by line item as reflected in Annexure 6

The above, and all other budget related documents shall be submitted to National Treasury.

6. TARIFF OF CHARGES – 2011/2012 FINANCIAL YEAR

The tariff of charges for the upcoming financial year have been reviewed on an individual basis by all respective departments and have been open to comments by both Councillors and Officials. The revised tariff of charges has been included in Annexure 9 for consideration by the public. As far as possible, increases have been limited to 6% in line with inflation.

7. PROPERTY RATES RANDAGES AND REBATES – 2011/2012 FINANCIAL YEAR

Umdoni Municipality implemented the Municipal Property Rates Act for the first time for the 08/09 financial year. This resulted in a revaluation of all properties within the Umdoni area, and was aligned to market related values. With this valuation, came the implementation of a new rates policy, and applicable tariffs, rebates and relief to the poor.

Being the third year of implementation, we have come a long way in ensuring the accuracy and completeness of our Valuation Roll. The Valuation Appeals Board has been established and is currently dealing with all objections and appeals. This process will be completed within the next financial year. In addition, the process for preparation of a new valuation roll will commence in the forthcoming year.

The current economic situation has further increased the financial burden on households throughout the country and has contributed to the struggle of day to day living and job security and sustainability.

As a sphere of government, we are sensitive to the crisis that we face, and therefore we have accounted for a 6% increase in the rates randages for the upcoming financial year. This 6% increase will assist in addressing the inflationary pressures experienced as well as assist in the municipality being able to contribute more effectively to the enhancement of service delivery. Therefore, for 2011/2012 financial year, we propose the rates randages and rebates as indicated below:

Category	10/11 Rates Randage	11/12 Rates Randage
Residential	0.00700	0.00742
Commercial/Business	0.00937	0.00993
Industrial	0.00937	0.00993
Agriculture Property	0.00178	0.00185
State Owned Property	To be rated on usage	To be rated on usage
Public Service Infrastructure	0.00178	0.00189
Public Benefit Organization	0.00178	0.00189
Vacant Other	0.01961	0.02079

The rebates applied for the 2011/2012 financial year is proposed to remain the same as the 10/11 financial year:

	R
- Residential (R 60,000 elective and 15,000 legislated)	75,000.00
- Vacant Other	15,000.00
- Disabled Persons/Pensioners/Indigent:	370,000.00
Medium to High Density level developments (Sectional Titles and Shareblocks) 4% on rates due for the financial year	
Annual payments on or before 30 September 2011 2.5% of the nett rates raised	

8. OVERVIEW OF THE ANNUAL BUDGET PROCESS

The budget process is guided by various legislative frameworks and regulations, including the Local Government Municipal Finance Management, No, 56 of 2003 and the Municipal Systems Act, 2000.

Adherence to these guidelines and regulations are imperative during the budget preparation to ensure an effective, credible and sustainable budget. The review of past practices and performance is further necessary, to identify areas of weakness which can be addressed, as well as maintain the level of performance in areas where this has been achieved.

The process embarked upon for the preparation of the 2011/2012 budget can be illustrated below:



9. OVERVIEW OF THE ALIGNMENT OF THE BUDGET TO THE INTEGRATED DEVELOPMENT PLAN

The alignment of the budget to the integrated development plan is crucial in order to ensure the effectiveness of any budget. Various internal consultative sessions were held with Councillors and officials in order to determine the strategic priorities for the municipality in the upcoming financial year. Both the integrated development plan and the budget has incorporated these priorities and action plans, and therefore assisted in the alignment of both the budget and the integrated development plan.

10. OVERVIEW OF THE BUDGET RELATED POLICIES

The budget related policies are currently under review and any comments or suggestions received during the public participation process will be considered.

11. BUDGETING ASSUMPTIONS

The budgeting assumptions that underpin the 2011/2012 budget preparation are as follows:

Revenue

- All revenue levels were based on current and past year actual trends, and therefore resulted in a realistic revenue base and kept in line with inflation as far as possible;
- Both property rates and refuse removal income was increased by 6% based on current year actual billable revenue;
- The Clinic subsidy has not been included in the operating income and neither has the expenditure been budgeted for;
- Interest on investments was decreased by R 2,48 million due to the decrease in the disaster fund;

Expenditure

- The following areas were targeted in terms of the reduction of administrative expenditure:
 - Advertising
 - No additional staff were budgeted for
 - Employment of contract workers
 - Overtime
 - Telephones
 - Conferences, meetings and travel expenses



UMDONI MUNICIPALITY

DRAFT BUDGET DOCUMENTATION FOR THE 2011/2012 BUDGET YEAR

- Legal Expenses
- Employee costs were budgeted at an estimated increase of 8% from current year expenditure levels;
- Electricity was budgeted utilizing the full year forecasted expenditure of the current year and taking in to account Eskoms tariff increase, however the value of the increase has been minimal in an effort to curb usage.

12. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

I, **Mr. DD NAIDOO**, Municipal Manager of **UMDONI MUNICIPALITY**, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act, No.56 of 2003 and, to the extent as indicated in the budget documents, the regulations made under this Act, and that the annual budget and supporting documentation are consistent with the draft Integrated Development Plan of the Municipality.

PRINT NAME: _____

MUNICIPAL MANAGER OF: _____

SIGNATURE: _____

DATE: _____